



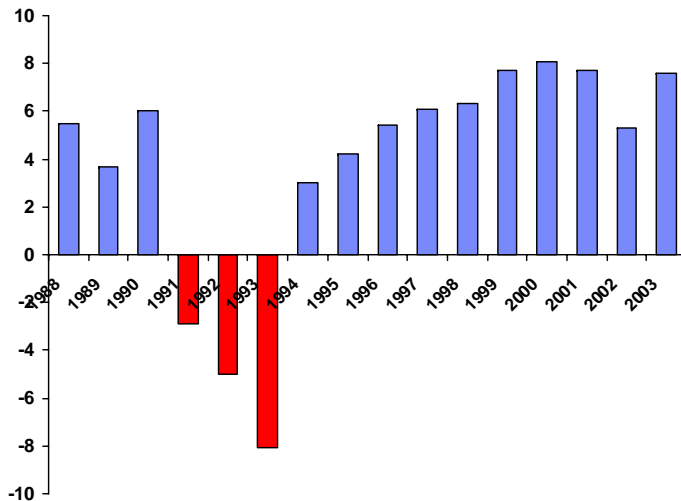
IBM Global Business Services Business

IBM's Business Transformation & Optimization

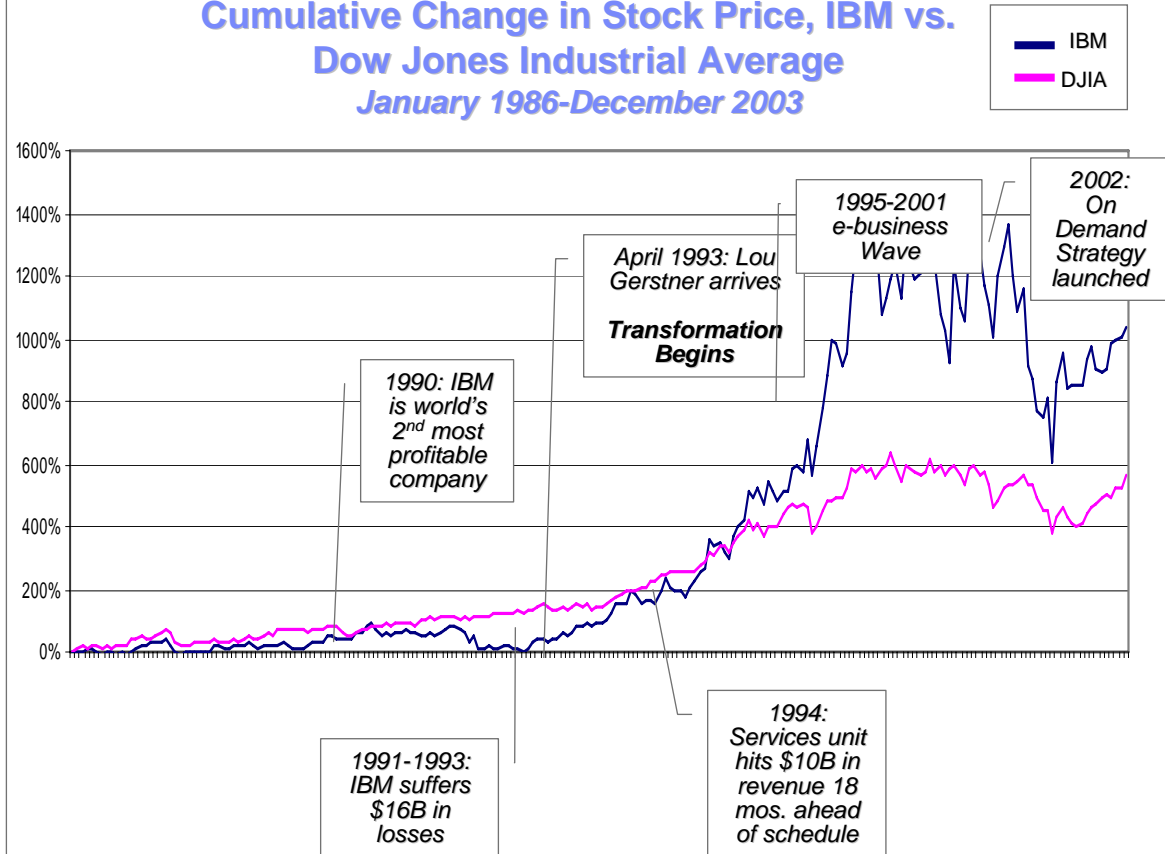
John T. Dixon
PIMA International Leadership Conference
May 23, 2006

IBM's Burning Platform for Transformation

IBM Net Income: 1988-2003
(\$billions)

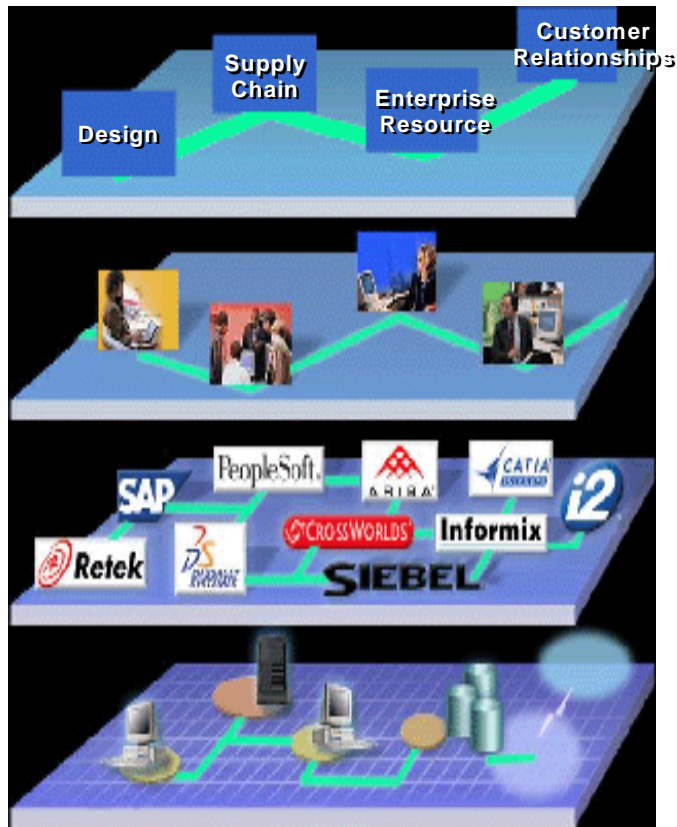


Cumulative Change in Stock Price, IBM vs. Dow Jones Industrial Average
January 1986-December 2003



Sources: Company reports; Yahoo! Finance; Harvard Business Review

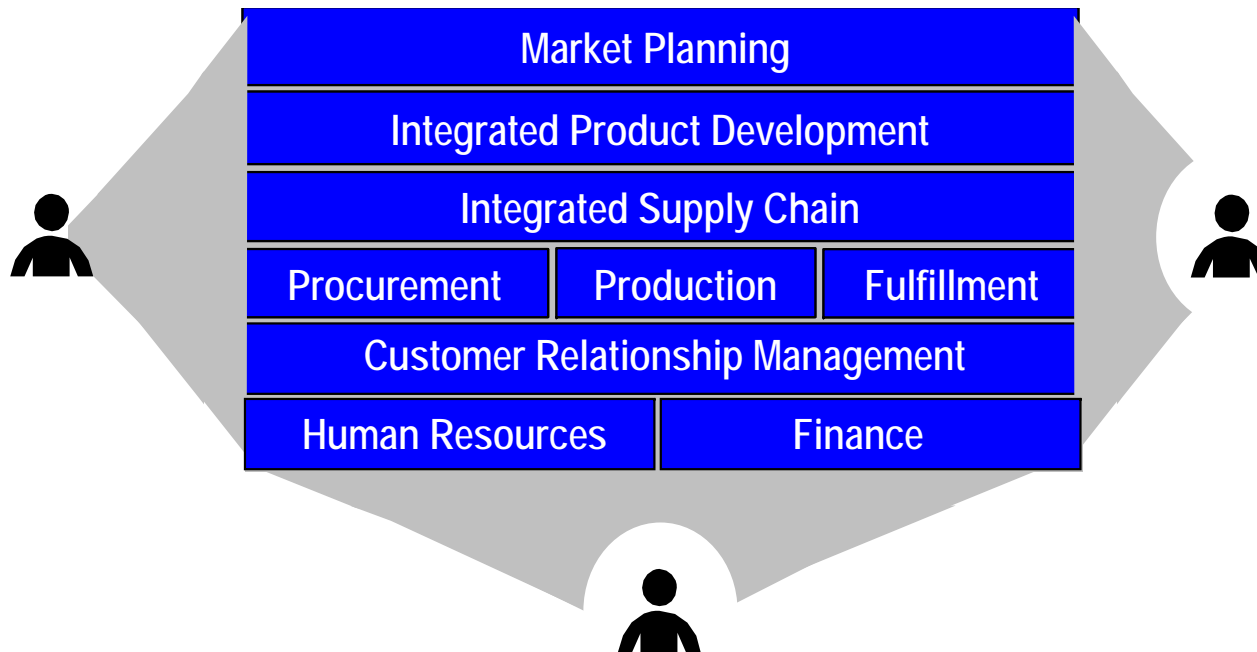
Four Elements of Transformation...an Enterprise Approach



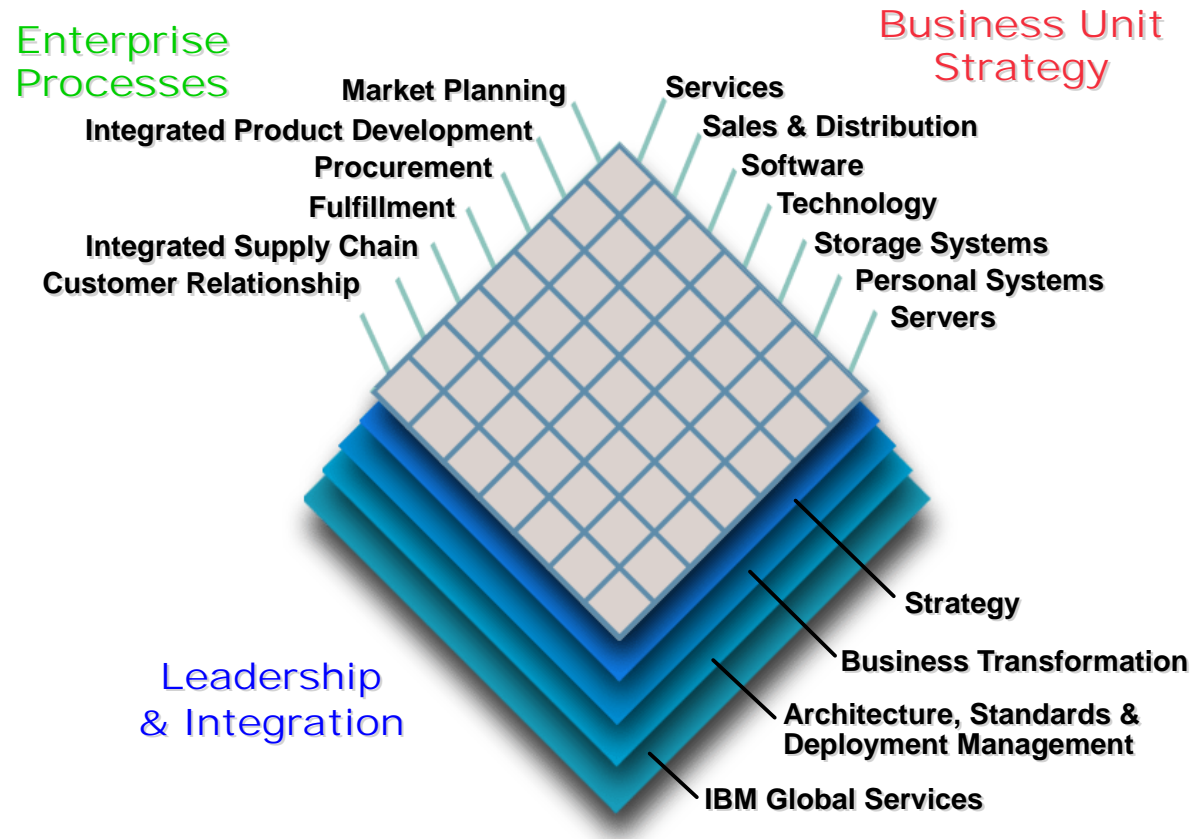
1. ***Business Processes and Integration***
2. ***Organization and Culture***
3. ***Solutions and tools***
4. ***e-business infrastructure***

Business Processes and Integration

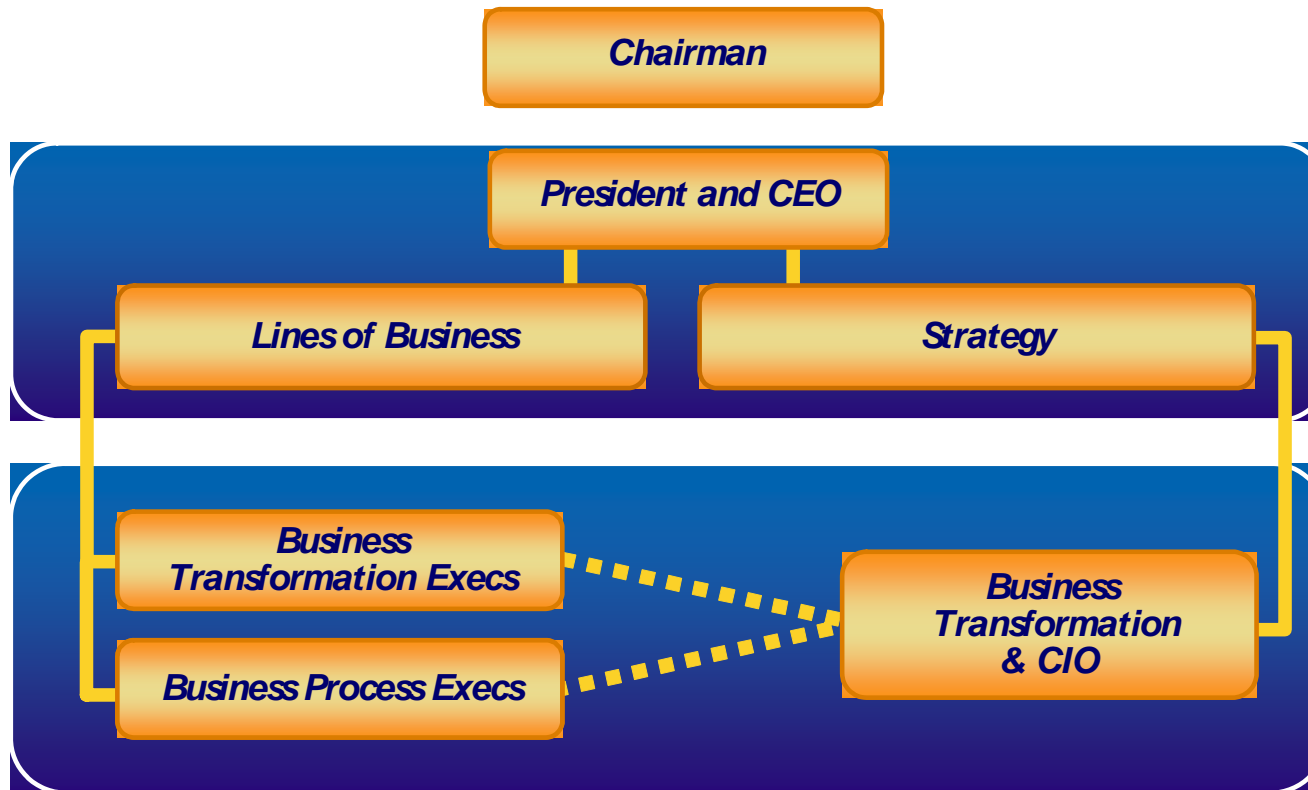
IBM inspected and rebuilt every functional area with process simplicity as the guideline.



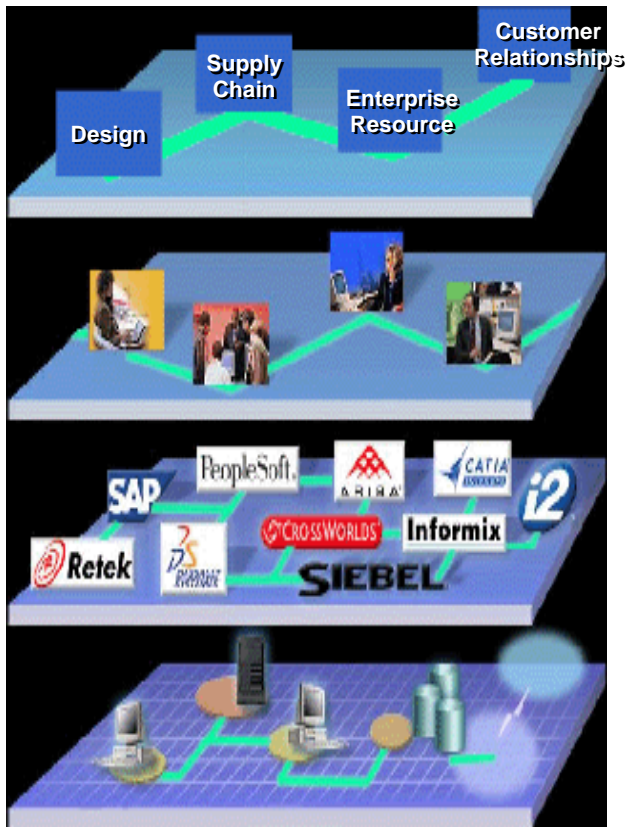
Organization and Culture – Management Structure



Organization and Culture – Clear Linkage to Senior Management



Benefit by Transformational Element



1. **Business Processes and Integration**

- *Improved customer interaction*
- *Process efficiency; enterprise approach*

2. **Organization and Culture**

- *Cross-business line synergy*
- *Common performance metrics*

3. **Solutions and Tools**

- *A platform for growth*
 - *New Customers*
 - *New Markets*
 - *Acquisition enablement*

4. **e-Business Infrastructure**

- *Solidifies cultural change*
 - *Single portal*
 - *Distributed learning*

IBM's Transformation Results

Business Process Re-engineering Results:

Hardware development time

67% Faster

On-time delivery

95%

Rate of "maverick" buying

From 45% to less than 0.5%

Customer satisfaction

+ 5.5 points

Infrastructure Simplified:

	1992	2002
<i>CIOs</i>	128	1
<i>Data Centers</i>	235	18
<i>Key Applications</i>	145	55
<i>Networks</i>	31	1

IBM's Transformation Results

HR Operations Simplified:

	1992	2004
<i>HR Operation Centers</i>	38	1
<i>Key Applications</i>	168	71
<i>HR Data Centers</i>	21	1
<i>HR U.S. Headcount</i>	3,650	1,438
<i>WW Ratio of HR/Employees</i>	1:59	1:109

Human Resources delivering more with less through better efficiency

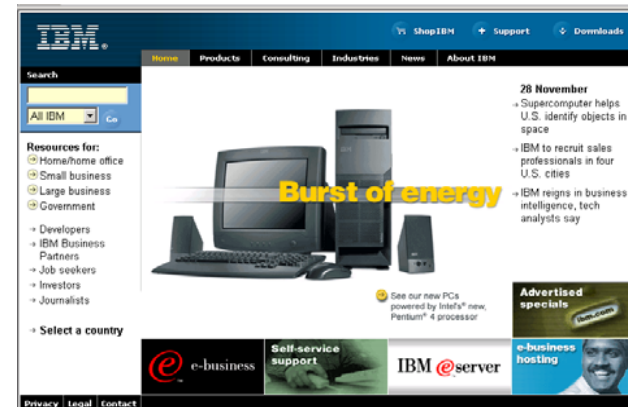
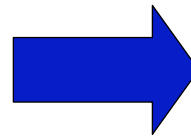
IBM's Transformation Results

Operations Improved:

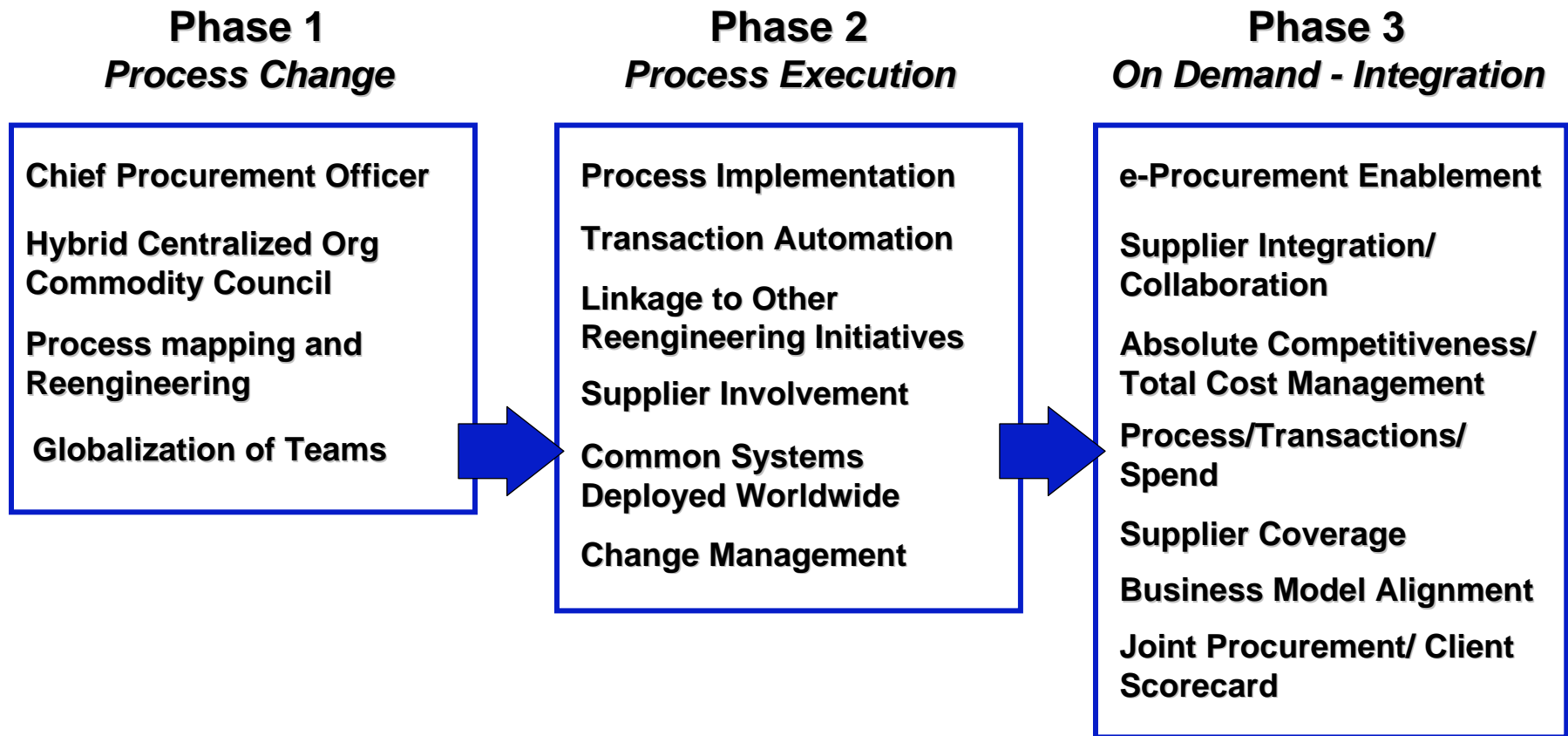
	<u>FY1998</u>	<u>2002</u>
<u>e-commerce</u>	<u>\$3B</u>	<u>+\$27B</u>
<u>e-procurement</u>	<u>\$7B</u>	<u>+\$40B</u>
<u>Support transactions</u>	<u>14M</u>	<u>+120M</u>
<u>Distributed learning</u>	<u>15%</u>	<u>+40%</u>

IBM Transformation Business savings:

More than \$6.2B



Transformation Roadmap - Procurement



IBM's Transformation Results

Procurement

	Before	Now
<i>Purchase order processing</i>	30 Days	1 Hour
<i>Contract cycle time</i>	6-12 months	30 Days
<i>Rate of "maverick buying"</i>	45%	Less than .5%
<i>Paper invoices</i>	5M	<> 0

Supply Chain Management

	Before	Now
<i>Supply/Demand planning time</i>	45+ Days	20 Days
<i>"Pull" replenishment</i>	- 0 -	More than 80%
<i>Cycle time (Order entry to delivery)</i>	35 – 65 Days	2 – 23 Days
<i>"Rapid response" revenue</i>	- 0 -	>\$2.5B

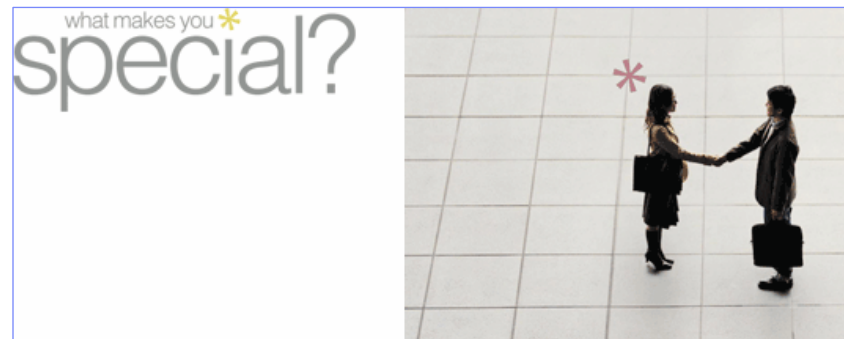
IBM's Continued Evolution

Acquisitions:

- PricewaterhouseCoopers Consulting – Services
- Ascential Software - Data integration
- Rationale Software - Software development
- Corio – ASP for Midmarket
- Informix – Database management

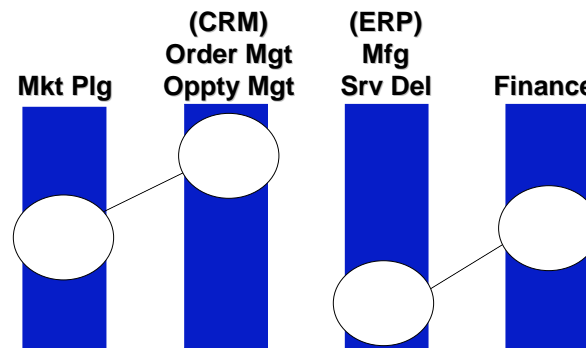
Divestiture:

- PC Division to Lenovo



Why Do Some Transformation Projects Fail?

- Lack of leadership, commitment and leverage across the investment
 - **Pocket veto's**
 - **"I'm different"**
 - **Not a core effort to the corporation**



- Weak integration across business groups and processes
 - **Silo investments/Efforts**
 - **It about the process not the tool....but they both support each other**
 - **Paving the cow path**
 - **"The Process brings the value; The tool cements the behavior"**
 - **Garbage in ... Garbage out but you still pay for it.**

Lessons Learned

- **Create a “sense of urgency” that the company can rally around**
- **Stay the course**
- **Clear performance measures which tie to the goals of the program**
- **Quality communications**
- **Define short term projects with near-term results**
- **Review business processes to see if changes are needed before you deploy technology**
- **Technology enables and hastens transformation**
- **Sunset legacy systems and tools as new ones are deployed**
- **Can NOT overemphasize the importance of culture – this will make you or break you**